

# Financial Technology Business in Indonesia

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## Development of Financial Technology

Indonesia has exceeded over one hundred thirty million internet users by 31 March 2017 and the number is getting higher throughout the years. Increase of telecommunication system construction and high penetration of mobile device play essential role in this regard.

This situation and the high potential Indonesia market are considered as a business opportunity, particularly in Financial Technology (“**Fintech**”) sectors. Financial technology business has been evolved since 2006 in Indonesia and hit the peak in 2015 - 2016 with 78% of the growth of Fintech players. This business model is widely known as ‘peer to peer lending’ (P2P lending).

In March 2016, Indonesian Fintech Association (*Asosiasi Fintech Indonesia*) was established by Indonesian Fintech communities after series of meetings with Bank of Indonesia (*Bank Indonesia - BI*) and Financial Services Authority (*Otoritas Jasa Keuangan - OJK*). The association has three important duties i.e. research institution on Fintech policy, learning center and point of contact with other Fintech association around the world.

## Definition of Financial Technology Business

As a result of the rapid growth of Fintech business, the OJK promulgated OJK Regulation Number 77/POJK.01/2016 regarding Information Technology-based Money Lending Services on 29 December 2016 (“**OJK Reg 77/2016**”).

Article 1 paragraph 3 of the OJK Reg 77/2016 defines Information Technology-based Money Lending Services i.e.

*‘The provision of financial services to bridge the borrower and the lender to enter into a loan agreement in rupiah currency directly through electronic systems using the internet network.’*

## Formation and Capitalization of Financial Technology Business

The Fintech provider is required to establish an Indonesian legal entity either in the form of cooperative or a limited liability company.

Foreign investors are also allowed to enter into this business model by setting up a limited liability company with maximum capital participation of 85% (eighty five) percent. Registration of the Fintech company and arrangement of the business license should be done at the OJK.

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The Fintech company is required to have minimum paid up capital of IDR 1 billion, while the Fintech cooperative should have the same number as their authorized capital at the registration stage.

Once submitting application for business license, the Fintech company should have minimum IDR 2.5 billion as their paid up capital and the Fintech cooperative is required to have the same number as their authorized capital.

### Registration Approval

For the Fintech companies which have been operated before the enactment of the OJK Reg 77/2016, they are required to submit the registration to the OJK at the latest 6 (six) months as of the enactment date of the OJK Reg 77/2016.

The Registration Approval shall valid for 1 (one) year as of its issuance date. During that period, the Fintech provides is required to submit periodic report every 3 (three) months which at least provide information on number of the borrower and the lender, quality of lending activities and other related activities after being registered at the OJK.

### Business License

To obtain the business license, the Fintech provider should meet the criteria in Article 11 of the OJK Reg 77/2016. Any change of the Fintech provider ownership should firstly be approved by the OJK.

If the Fintech provider is unable to continue its operational activities, they must submit an application to the OJK along with the reasons of their incompetence and plan on settlement of rights and obligations of the borrower.

The Fintech provider which has obtained the business license should submit electronic monthly and annual report.

The monthly report must contain at least:

1. financial report;
2. performance report;
3. Electronic document in database format with database element structure of Information Technology-based Money Lending Services; and
4. complaints from the users and its settlement;

Meanwhile, the annual report requires financial report and performance report using 'Form 4' of the OJK Reg 77/2016.

**F**intech provider is required to obtain registration approval and business license from the OJK and to submit monthly and annual report to the OJK.

### Lending Services Requirement and Interest Rate

To be the borrower in this business, any individual or company should be Indonesian or Indonesian company domiciled within Indonesia territory. Meanwhile, local or foreign individual/companies can participate in this business as the lender. The maximum allowed loan is IDR 2 billion (two billion Indonesian Rupiah).

In terms of interest rate, the Fintech provider shall give input on the rate proposed by the borrower and the lender considering fairness and national economic development. The rate and other required information in Article 19 of the OJK Reg 77/2016 should also be stated in the information technology-based money lending agreement between the Fintech provider and the borrower as well as the Fintech provider and the lender.

The Fintech provider is also required to set an 'escrow account' to collect any settlement of loan from the borrower and a 'virtual account' to collect investment from the lender.

### Other Requirements

The OJK recently issued OJK Circular Letter Number 18/SEOJK.02/2017 on Corporate Governance and Risk Management of Information Technology on Information Technology-based Money Lending Services which basically requires all Fintech provider to:

1. build data center and disaster recovery center in Indonesia territory;
2. not disclose the borrower and the lender's personal information to any other parties and keep it strictly confidential; and
3. improve the board of director's roles in mitigate potential risk by considering assets, the business prospectus, data and information classification, person in charge of risk and so forth.

### Sanction

The OJK is authorized to penalize the Fintech provider on any violation to the OJK Reg 77/2017 in the form of:

1. written warning;
2. money fine;
3. limitation of business activities; or
4. revocation of business license.

The maximum loan is two billion Indonesian Rupiah with interest rate as determined by the Fintech provider.